

Message Text

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ACTION EA-09

INFO OCT-01 IO-14 ISO-00 AID-05 CIAE-00 COME-00 EB-07

FRB-01 INR-07 NSAE-00 USIA-15 TRSE-00 XMB-04

OPIC-06 SP-02 LAB-04 EPG-02 SIL-01 OMB-01 NSC-05

SS-15 STR-04 CEA-01 PA-02 AGRE-00 PRS-01 L-03

H-02 /112 W

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R 080710Z JUL 77

FM AMEMBASSY SEOUL

TO SECSTATE WASHDC 4995

INFO AMEMBASSY TOKYO

AMEMBASSY TAIPEI

AMCONSUL HONG KONG

US MISSION GENEVA 428

UNCLAS SEOUL 5696

E.O. 11652: N/A

TAGS: ETRD, EFIN, MTN, EGEN, KS,

SUBJECT: KOREAN ECONOMY REMAINS ON LEVEL TREND

REF: SEOUL 4820

SUMMARY: KOREA'S ECONOMY CONTINUES ON A LEVEL, BUT STEADY COURSE. EXPORTS REMAIN SATISFACTORY WHILE THE GROWTH OF IMPORTS APPEARS TO BE ON THE RISE. THE CONTROL OF PRICES STILL PRESENTS PROBLEMS, TOGETHER WITH MAINTAINING THE GROWTH OF MONEY SUPPLY WITHIN ACCEPTABLE LIMITS.
END SUMMARY

1. INDICATORS RECENTLY RELEASED BY THE ROKG SHOW THE ECONOMY REMAINS STEADY WITH NO BASIC CHANGE IN THIS TREND APPARENT. INDUSTRIAL PRODUCTION IN MAY ROSE 3 PERCENT OVER MARCH (0.2 PERCENT SEASONALLY ADJUSTED) AND IS 12.7 PERCENT ABOVE THE JANUARY-MAY PERIOD OF 1976. PRINCIPAL GAINS IN INDUSTRIAL
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PRODUCTION SO FAR APPEAR TO BE IN FABRICATED METAL PRODUCTS, MACHINERY AND ELECTRONICS, WHILE TEXTILES AND RELATED INDUSTRIES REMAIN SLUGGISH. SHIPMENTS IN MAY ROSE 6 PERCENT OVER THE PREVIOUS MONTH, WITH INVENTORIES UP SLIGHTLY BY 1.2 PERCENT. CONSTRUCTION CONTINUES DEPRESSED, WITH HOUSING STARTS DOWN 22 PERCENT COMPARED TO THE FIRST FIVE MONTHS OF 1976, AND AVERAGE CONSTRUCTION ACTIVITY SHOWING A 15.9 PERCENT DROP OVER THE SAME

PERIOD. THE OVERALL WARNING INDICATOR REMAINS UNCHANGED AT 1.4.

2. THE FOREIGN SECTOR CONTINUES GOOD ALBEIT UNSPECTACULAR COMPARED TO PAST STANDARDS. COMMODITY EXPORTS IN JUNE TOTALED \$862 MILLION, UP 6.7 PERCENT COMPARED TO MAY. IN THE FIRST SIX MONTHS, EXPORTS WERE \$4,447 MILLION (BOK SETTLEMENT BASES) OR NEARLY 45 PERCENT OF THE TARGETED GOAL OF \$10 BILLION. SINCE SHIPMENTS USUALLY RISE IN THE SECOND HALF, THE TARGET SHOULD BE MET. HOWEVER, L/C ARRIVATS CONTINUE IN A DOWNTREND WITH THE MONTHLY TOTAL FOR JUNE AT \$750 MILLION, A 0.1 PERCENT DROP FROM MAY LEVELS. THE SEASONALLY ADJUSTED INDEX OF L/C ARRIVALS FOR THE SECOND QUARTER FELL TO 117.2 COMPARED TO 124.3 FOR THE FIRST QUARTER. IMPORTS, ON THE OTHER HAND, CONTINUE TO SURGE FORWARD. FOREIGN EXCHANGE IMPORTS IN JUNE WERE \$797 MILLION, A 10 PERCENT INCREASE OVER MAY. IN THE FIRST HALF, FOREIGN EXCHANGE IMPORTS ARE UP 23 PERCENT OVER THE SAME PERIOD IN 1976, WHILE EXPORTS INCREASED BY 33 PERCENT ON THE SAME BASIS. ALTHOUGH IMPORT LICENSES ISSUED IN JUNE DROPPED 11.2 PERCENT FROM MAY, THE SECOND QUARTER SEASONALLY ADJUSTED INDEX SHOWED A STRONG GAIN TO 156.7 FROM 132.2 IN THE FIRST QUARTER.

3. DUE TO A NET CAPITAL OUTFLOW OF \$200 MILLION IN JUNE, FOREIGN EXCHANGE HOLDINGS FELL BY \$16.4 MILLION TO \$3,503 MILLION, WHICH STILL REMAINS 72 PERCENT ABOVE HOLDINGS ONE YEAR AGO. SERVICE RECEIPTS INCREASED BY \$367 MILLION TO \$1,477
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MILLION FOR THE FIRST SIX MONTHS, A 121.5 PERCENT GAIN OVER THE FIRST HALF OF 1976. PRINCIPALLY THE RESULT OF INFLOWS FROM OVERSEAS CONSTRUCTION PROJECTS, SERVICE RECEIPTS APPEAR TO BE KOREA'S BOP ANSWER TO HIGHER PETROLEUM PRICES.

4. THE MONETARY AUTHORITIES ARE STILL FACING PROBLEMS IN KEEPING THE MONEY SUPPLY GROWTH AT A REASONABLE RATE. MONEY (M-1) IN JUNE INCREASED 5.3 PERCENT OVER MAY AND HAS SHOWN AN AVERAGE RISE OF 2.1 PERCENT PER MONTH TO DATE IN 1976. SINCE DECEMBER MONEY SUPPLY HAS RISEN BY 12.8 PERCENT, ABOUT DOUBLE THE RATE IT GREW DURING THE FIRST SIX MONTHS OF 1976. SINCE JUNE 1976 MONEY, DUE PRIMARILY TO THE INFLUX OF FOREIGN EXCHANGE HOLDINGS, HAS GROWN 38.4 PERCENT. ON THE OTHER HAND, DOMESTIC CREDIT OVER THE SAME SPAN ROSE BY 20.6 PERCENT. THE SQUEEZE HAS BEEN ON THE PRIVATE SECTOR WHERE CREDIT GROWTH HAS BEEN HELD TO A 1.8 PERCENT AVERAGE INCREASE DURING THE PAST SIX MONTHS. SAVINGS, HOWEVER, HAVE MAINTAINED GOOD PROGRESS DURING THE PAST SIX MONTHS AND NOW STAND AT 54.3 PERCENT OF THE 1977 TARGET OF 1.6 TRILLION WON (\$3.3 BILLION). THE GROWTH OF SAVINGS HAS BEEN CONCENTRATED IN BANK DEPOSITS AND SHORT TERM SAVINGS INSTRUMENTS.

5. THE NEWS ON THE PRICE FRONT REMAINS DISQUIETING. WHOLESAL
PRICES WERE UP 0.8 PERCENT IN JUNE FROM MAY AND HAVE INCREASED
5.7 PERCENT SINCE THE END OF 1976. AGRICULTURAL PRODUCTS
CONTINUE TO LEAD PRICE RISES, UP 10.6 PERCENT FOR THE FIRST
SIX MONTHS. CONSUMER PRICES IN JUNE ROSE 1.0 PERCENT FROM
MAY LEVELS AND 6.7 PERCENT SINCE DECEMBER. HERE AGAIN THE
PRICE OF FOOD, TOGETHER WITH FUEL AND ELECTRICITY KIKES,
HAVE LED THE WAY. IT APPEARS LESS AND LESS LIKELY THAT THE
TARGETED 10 PERCENT LIMIT FOR PRICE INCREASES IN 1977 CAN BE
MET.

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